As GP-Led Secondaries Grow, So Has Related Use of Reps and Warranties Insurance

GP-led secondaries surged to record volumes in 2024, due largely to the rise of single- and multi-asset continuation funds. As a result, secondary investors have increasingly turned to M&A-style insurance to shore up their investments. This trend is bound to continue in 2025 as market participants become more familiar with—and sophisticated in their use of—representations and warranties insurance (“RWI”).

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Market participants have benefitted significantly from RWI, as it helps protect investment value, generate greater liquidity, facilitate negotiations, and manage potential conflicts of interest by increasing alignment among the sponsor, selling fund, and incoming investors. The following article outlines why and how sponsors and secondary investors may procure RWI policies on GP-led transactions and includes key considerations when obtaining RWI.

Key Considerations for Using RWI in GP-Led Secondaries

Broad RWI coverage is now available for all GP-led secondaries structures, regardless of the number, jurisdiction, operations of the underlying asset(s), deal size, or the parties’ approach to due diligence and disclosure. In recent years, brokers have obtained RWI policies for sponsors seeking to execute GP-led secondaries with NAVs ranging from $50 million to several billion dollars. Below are a few important considerations:

1. Pricing varies based on the limit purchased, quality of the transaction, and nature of the deal, but is typically between 20 and 60 basis points of the transaction’s purchase price.
2. It is important to engage with an insurance broker early in the transaction process, ideally prior to when indications of interest (“IOI”) are due to ensure that policy, indemnity structure, and due diligence factors are considered before the sponsor and lead investors agree on an indemnity structure for the transaction agreement.
3. RWI can be placed in a few days, if necessary. However, longer lead times are beneficial to ensure the RWI negotiations dovetail with broader transaction negotiations.
4. Policies for GP-leds are commonly placed without supporting transaction-specific due-diligence reports, but any such reports will lead to broader coverage and can be useful in negotiations.

Limits, Retentions, and Premiums[1]

As of the fourth quarter of 2024, RWI policies for GP-led secondaries transactions typically had rates on line[2] of between 1.4% and 1.8% of the amount of insurance purchased. Generally, pricing depends on the nature of the investments and the representations covered. Initial retentions are typically between 0.1% and 0.5% of NAV and often drop to around 0.2% of the NAV one year from closing if greater than 0.2% initially.[3]

Typical pricing for fundamental only top-up coverage (i.e., an excess layer of insurance that covers the fundamental reps and sits on top of the base RWI policy) ranges from 0.4% to 0.6% rate on line, and fundamental plus excluded obligations top-up coverage (i.e., an excess layer of insurance that covers fundamental reps and excluded obligations and sits on top of the base RWI policy) currently ranges from 0.75% to 0.90%. As with base RWI policies, the pricing ultimately depends on the nature of the investment, and the covered representations and indemnities. Currently, most RWI policies are structured to include a combination of base and top-up coverage, which provides for total protection between 20% and 50% of NAV, but the pricing differential within this range can be material depending on the indemnity structure pursued.

Please see Exhibit 1 for a hypothetical pricing comparison.

Exhibit 1: RWI Pricing Differentials[4]

Understanding how pricing varies depending on the nature of RWI policies can help sponsors limit costs, streamline negotiations, and cap expenses at a specific monetary figure. Common 50/50 splits sometimes cause increased RWI costs when lead investors push for additional top-up coverage.

RWI Base Policy Limit	RWI Base Policy (10% of NAV) *(A)*	20% of NAV Fundamental Only Top-up *(B)*	TOTAL *A+B*	20% of NAV Fundamental and Excluded Obligation Top-up *(C)*	TOTAL *A+C*
$10 million	$220,875	$108,938	$329,813 (~0.33% of NAV)	$160,813	$381,688 (~0.38% of NAV)
RWI Base Policy Limit	RWI Base Policy (20% of NAV) *(A)*	10% of NAV Fundamental Only Top-up *(B)*	TOTAL *A+B*	10% of NAV Fundamental and Excluded Obligation Top-up *(C)*	TOTAL *A+C*
$20 million	$400,250	$57,063	$457,313 (~0.46% of NAV)	$83,000	$483,250 (~0.48% of NAV)

Using a hypothetical transaction with an NAV of $100 million, the above shows the pricing for two different policy structures—one with excluded obligations coverage and one without. The figures assume a 1.5% rate for a base RWI policy, a 0.5% rate for fundamental only top-up coverage, and a 0.75% rate for fundamental and excluded obligations top-up coverage. The totals include broker compensation and additional taxes (calculated at New York rates) and market standard underwriting fees. Please note while total RWI costs increase with larger transactions, it's not common to have the same level of coverage for transactions of different sizes, and thus costs typically vary. Generally, as transaction sizes increase, RWI costs as percentage of NAV decrease.

Process: Marketing and Underwriting Stages

While placing an RWI policy can be done in a few days, approximately two to three weeks of work is more typical—and engaging with an RWI broker at the LOI stage for the broker to conduct the marketing stage is strongly encouraged.

Below, we break down the marketing stage and the underwriting stage as they relate to broker involvement:

Marketing stage (~1 week)

- Initial call with broker, sponsor, counsel, and/or sell-side advisor to discuss details of the transaction (structure, NAV, portfolio companies and timing, etc.).
- The sponsor and its advisors provide the broker with the draft transaction agreement, access to data room, latest financial statements, and CIM (or other management presentation/investor deck-like document). Due diligence reports are not typically required, but such reports will enable broader coverage.
- The broker negotiates nonbinding indications ("NBIs") with insurers that are under NDA and prepares an NBI report that is shared and discussed with the sponsor.

Underwriting stage (~1–2 weeks)

- The sponsor and/or lead investor(s) select an insurer and execute the insurer's NBI or expense agreement.
- Data room access and substantially final form disclosure schedules and due diligence reports (if any) are provided to the insurer.
- Broker schedules and hosts the underwriting call with the insurer and sponsor and a separate underwriting call with the lead investor(s).
- Broker and sponsor/lead investor(s) and their advisors negotiate the RWI policy.
- RWI policy incepts, simultaneously with execution of the transaction agreement.

Staying Power of GP-Leds and RWI

Because of its utility and relatively easy execution, RWI has now become a common feature of GP-led transactions. That trend is set to continue as market participants realize the flexibility and benefits that RWI provides to ease negotiations, generate superior fund returns, and help manage conflicts of interest, among other things.

Engaging with an insurance broker early in the transaction process helps ensure these benefits and others are realized.

1. Source: Atlantic Global Risk LLC. Limits, retentions, and premiums discussed in this section are based on Atlantic's experience as a broker.
2. Defined as the premium expressed as a percentage of the policy limit.
3. Retentions specify the amount of loss that needs to be sustained before an insured can recover for any additional loss, akin to a seller threshold or deductible.
4. Source: Atlantic Global Risk LLC.